

From: Abhay Padgaonkar
Date: April 5, 2021
Docket: 2021 PSA Implementation (E-01345A-16-0036); 2021 Summer Preparedness (E-99999A-21-0039); 2019 APS Rate Case (E-01345A-19-0236), Resource Planning and Procurement (E-00000V-19-0034)
Re: **PSA: Evidence of Poor Planning; Staff's Gross Indifference and Negligence; Outdated POA**

Dear Commissioners:

It was bad enough that the massive PSA increase didn't make the Commission's press release – although the two largest newspapers in the state covered the story. I am shocked that PSA Increase didn't even make the April's Open Meeting agenda. I request that this item be included for discussion and possible vote at the Commission's **April 13-14 Open Meeting**, especially considering the following executive summary, with more detailed information on pages 2-3.

2020 Resource Planning report obscures its miscues and fails to substantiate APS's PSA excuses

My previous letter had detailed the critical importance of a comprehensive PSA Audit and that APS's "force majeure" excuses do not withstand the weight of evidence to the contrary.¹ It takes on an even greater significance after examining APS's recent 2020 Resource Planning report.² While the coincident peak and energy consumption were somewhat elevated in 2020, they were not so off-the-charts as to create a major upheaval in fuel prices as APS would have us believe. Why was APS's PSA increase **\$271 million**, but TEP reported only a **\$7 million** increase in its 2021 PPFAC that was subject to *exactly* the same factors, i.e., hot summer weather, COVID-19, and higher market prices? All this provides further evidence that APS's poor planning and failure to prepare likely led to fuel and purchased power costs not being prudently incurred at the lowest reasonable cost.

Staff and RUCO have shown a staggering indifference and negligence with the PSA increase

"PSA Rate shall be reset on February 1 of each year, and shall be effective with the first February billing cycle **unless suspended by the Commission**," according to its POA. However, it seems rather odd that there is **no** objection or a memo by Staff in the docket raising a red flag, there is **no** agenda item recommendation for discussion, there is **no** report quantifying the increase represented in the APS filing, there is **no** analysis documenting trends over the years or across utilities, and there is **no** audit recommendation although only one audit had been done in the last 10+ years. Staff did absolutely nothing except simply kicking the can past February 1, thereby tying the Commission's hands, as per legal counsel Robin Mitchell. Oh and Staff did engage in after-the-fact grandstanding by taking credit — five full weeks after my letter to you — for making sure that the Commissioners didn't see this on TV for the first time! RUCO has been notably nonexistent throughout and still is.

The Plan of Administration (POA) for all adjustors, including PSA, must be immediately revised

If any adjustor goes into effect without the Commission's approval to the tune of \$271 million, when a "periodic" audit is done only once in 10+ years, and if APS now has zero skin in the game (90/10 sharing was removed in 2012), it is pretty safe to assume that the current POA is blatantly pro-utility and anti-consumer. The Commission must immediately revise the POA to: a) Order an **annual** audit to prove that the lowest reasonable fuel and purchased power costs were prudently obtained; and b) Hold ratepayers and APS shareholders **50/50** accountable, given that APS has full control over virtually every aspect of the incurred fuel and purchased power costs and ratepayers have none.

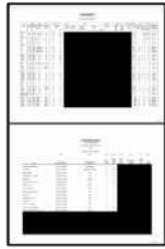
¹ "The PSA Audit's Statement of Work and Major Work Elements Must Be Comprehensive" at: <https://docket.images.azcc.gov/E000012587.pdf>

² "APS Resource Planning report for calendar year 2020" at: <https://docket.images.azcc.gov/E000012634.pdf>

I. 2020 Resource Planning report obscures miscues and fails to substantiate APS's PSA excuses

The proof of the pudding, they say, is in eating. But how do you eat the pudding that isn't even there?

That's the case with APS obscuring the generation and purchased power costs and the emissions data by redacting it. How is it fair to the ratepayers who are compelled to pick up the \$271 million PSA tab³ and breathe the dirty air, but aren't permitted to see the underlying details because of APS's bogus claim of "competitively confidential" information? How much worse could it get if the "competitors" were to find out? Who knew that APS, a monopoly, had competitors!



Also, what good has come out of the ACC Staff being able to see this information? Can anyone point to a single filing Mr. Abinah has made with meaningful analysis of the fuel and purchased price data over the years or across utilities or alerting anyone about possible red flags? Staff hasn't even bothered to audit the PSA since 2017 despite a major rate case proceeding for the last 18 months! **The Commission must immediately order the utilities to file unredacted reports and Staff to docket the PSA Audit RFP solicitation for all to see.**

Even the unredacted information in APS's 2020 Resource Planning report fails to substantiate APS's bogus claim blaming "events that could not have been predicted" rather than its own poor risk management:

- **Peak:** The highest Total Coincident Peak in 2020 was only **2.7% higher** in 2020 than that in 2018.

Resource Planning Report Comparison	2018	2019	2020
Highest Total Coincident Peak (Jul-Sep) MW	6,573	6,207	6,752
Total Energy Consumption (Jul-Sep) GWh	9,580	9,786	10,206
Fuel and Purchased Power expenses including interchange (\$ Million)	\$1,060.5	\$1,009.8	\$969.7
Actual Reserve Margin (GW)	1.32	1.13	1.43
Actual Reserve Margin %	18%	16%	19%
August Purchase Price	\$41.75	\$64.06	\$110.40
August Sale Price	\$59.61	\$29.31	\$71.15
Difference (August purchase vs. sale price)	(\$17.86)	\$34.75	\$39.25
Amount of Energy Purchased vs. Sold	?	?	?
Generating Unit:			
Annual Capacity Factor			
Fuel Costs			
Variable O&M Over Minimum			
Fixed O&M			
Purchased Power:			
Average Heat Rate			
Average Energy Cost			
Annual Demand Charge			
Variable O&M			
Emissions/Water Use (PPA)			

- **Consumption:** The Total Energy Consumption during July-September was only **4.3% higher** in 2020 than in 2019.

- **Fuel and Purchased Power Expense:** The 2020 Fuel and Purchased Power expense was, in fact, **4% lower** compared to 2019 and **9% lower** vs. 2018. According to Pinnacle West Form 10-K, the Fuel and Purchased Power expense as a percentage of total operating expenses *declined* from 38.3% in 2018 to 37.4% in 2019 to only **35.7%** in 2020 — the lowest in 3 years.

- **Reserve Margin:** The 2020 actual reserve margin at the time of system peak of **1.43 GW** and **19%** were the highest compared to those in 2018 or 2019.

- **Purchase vs. Sale Price:** The August 2020 purchase price was

high, but the sale price was also sky-high, making the difference between the two not that much higher.

Events of 2020 could not have been predicted? If the reserve margin of 19% at system peak was more than required, what was the need to purchase? And how much energy was purchased vs. sold and why? How much emissions did they generate? What were the fuel costs and purchased power costs in 2020 and why? There's no clue as it's all redacted! While the coincident peak and energy consumption were somewhat elevated in 2020, they were not so off-the-charts as to create a major upheaval in fuel prices as APS would have us believe. And yet, how did these forecastable variances lead to an "unanticipated" PSA increase of **\$271 million** despite EIM savings of \$49 million in 2020? Compare that to the \$7 million 2021 PPFAC increase TEP had due to exactly the same factors, namely hot summer weather, COVID-19, and higher market prices.

None of this adds up and nor do the excuses APS has previously given.⁴ In his Direct Testimony dated October 31, 2019, in the current rate case, Leland R. Snook testified: **"Recent projections for fuel and purchased power costs anticipate that the average cost in 2020 will remain within 0.05¢/kWh of the current rate, so any change would be very modest."**⁵ It's clear that APS missed it by a country mile! All this is further proof that APS's poor planning and failure to prepare likely led to fuel and purchased power costs not being prudently incurred at the lowest reasonable cost.

³ "SURPRISE!! APS's \$271 Million PSA Rate Hike While the Rate Case Is Still Pending" at: <https://docket.images.azcc.gov/E000011763.pdf>

⁴ "The PSA Audit's Statement of Work and Major Work Elements Must Be Comprehensive" at: <https://docket.images.azcc.gov/E000012587.pdf>

⁵ Leland Snook Direct Testimony at: http://s22.q4cdn.com/464697698/files/doc_downloads/regulatory_info/2019/Leland-Snook.pdf

II. Staff and RUCO have shown a staggering indifference and negligence with the PSA increase

I hope you were shocked to learn from Mr. Abinah that APS simply files the PSA calculations on November 30 and the changes automatically go into effect on February 1 — without an opportunity for the Commission to review and adjust it. Mr. Abinah also stated during the March 2021 Open Meeting that he didn't want the Commissioners to be surprised about the magnitude of the increase or see it on TV for the first time. Well, all that talk, as Staff would have us believe, only tells half the story. The PSA Rate resets on February 1, **unless suspended by the Commission**. That's right. The Commission *could have* suspended it before Feb. 1. But by kicking the can past February 1, Mr. Abinah made sure that the Commission wouldn't have that opportunity.

Talk is cheap. Mr. Abinah must know that **unless otherwise acted on or suspended** by the Commission, the PSA rate proposed by APS goes into effect in February. Any objections to the November 30 calculations must be filed **within 60 days of the APS filing**. So what does Mr. Abinah do between November 30, 2021 and February 1, 2021 that was public facing? **NOTHING!** That's right. There is no objection or a memo in the docket raising a red flag, there is no agenda item recommendation for discussion, there is no report quantifying the increase represented in the APS filing, there is no analysis documenting trends over the years or across utilities, and there is no audit recommendation, although only one audit had been done in the last 10+ years. **Staff did absolutely nothing except kicking the can past February 1, thereby tying the Commission's hands, with legal counsel Robin Mitchell in tow to render the "too-late-suckers" opinion.**

Mr. Abinah supposedly told APS that they will not implement on February 1 until the Company and Staff has the opportunity to inform the Commission of the effect on the ratepayers. It seems rather odd that there is no evidence of either APS or Staff ever informing the Commission of the effect on the ratepayers — yet! APS's letter dated February 12, 2021 (11 days after the fact) said that the Company has *voluntarily* delayed the implementation contradicting Mr. Abinah. There is no mention in that unilateral declaration of any concern from Staff or a request for the delay. Regardless, how exactly was the delay by itself magically supposed to inform the Commission of the effect on the ratepayers? Maybe you can ask Mr. Abinah.

Staff should have seen the undercollected PSA amounts ballooning month after month. Per the PSA Plan of Administration, APS must provide monthly reports to Staff and to RUCO detailing all calculations related to the PSA. APS must also provide monthly projections for the next 12-month period showing estimated over/undercollected amounts. APS filed its 2021 PSA calculations on November 30, 2020. So, it's not like Staff was not aware of what was going on for months about the \$271 million PSA increase — larger than the current and the previous rate cases combined. All Staff has done is grandstanding after the fact.

The reality is that I raised a stink on February 15, 2021 with my analysis that APS was proposing a \$271 Million PSA rate hike outside the rate case. This was the first time that anyone had shined a light on the massive increase while APS, Staff, and RUCO were AWOL. And it was Commissioner O'Connor who asked Staff on March 3rd to provide alternatives and requested that this item be included at the March 23-24 Open Meeting.

RUCO has been completely AWOL and didn't even attend the March Open Meeting for the PSA agenda item!

III. The Plan of Administration (POA) for all adjustors, including PSA, must be immediately revised

If any adjustor goes into effect without the Commission's approval to the tune of \$271 million — larger than the current and the previous rate cases combined — it is safe to assume that that POA is blatantly pro-utility and anti-consumer. If that same POA calls for a "periodic" audit, but Staff has conducted only one audit in the last 10+ years despite three rate cases and volatile fuel prices, it is safe to assume that the Commission has written a blank check to APS with the money coming directly out of the ratepayers' pockets. The Commission must revise the POA to order an **annual audit** given that PSA is the largest component of APS's operating expenses. And when APS can straight pass through the \$271 million fallout to captive ratepayers without any skin in the game whatsoever, that POA is unfair. The Commission must hold ratepayers and shareholders **50/50** accountable, especially given that APS has full control over virtually every aspect of the fuel and purchased power costs.